84750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon) June 8, 1984

On Thursday, June 7, the Fed reported that M1 registered a decline of $2.4 billion, a large drop in light of expectations of a small rise. This left M1 $3.7 billion below the top of its range and $1.9 billion above the midpoint of its range. After the release there was some follow-through from a rally begun earlier, but that eventually evaporated. The reason that the markets are not pleased with a decline in M1 is that M1 has not been important so far this year; neither have the other monetary aggregates for that matter. Let's look back at money growth so far this year and see what it has done, what the growth means, and the circumstances under which money growth might become important.

Within M1, demand deposit (DD) growth has been very weak, growing at an annual rate of 1.8% through April. Other checkable deposits (OCDs), the other important M1 component, which is largely NOW accounts, has raced ahead with monthly growth rates of up to 30%; but this rapid growth did abate--sharply--in April, reducing its annual growth rate to 9.4% over the fourth-quarter 1983 to April 1984 period. This slowing seems not to have been due to high interest rates because the rapid growth has resumed in May. The April slowing in DDs and OCDs now seems to be totally a function of April tax payments.

For M2 components (other than those in M1) growth rates have been low to moderate. Overnight Eurodollars have declined at a 25% rate, and low-interest-bearing savings deposits have run off at a slow 2.8% clip. The more interest-sensitive components are growing faster: overnight RPs, 11%; money market mutual funds, 14%; bank MMDAs, 15%; and small time deposits, 9½% (all of these rates are fourth quarter 1983 through April 1984). The net result of these factors is to leave M2 a slow-growing aggregate.

M3 components (those not in M2) have grown much more rapidly during this same period. M3 generally contains items thought of as banks' managed liabilities. That is, banks really don't refuse small time deposits (TDs), demand deposits, or MMDA deposits offered by their customers. But for large TDs, term RPs, and the like, customers are so rate sensitive that by adjusting rates, banks can attract or repel funds. Hence these are called managed liabilities. These have grown very rapidly: large TDs, 21%; term RPs, 65%; term Eurodollars, 12½%; and institutional MMMFs, 9½%. Banks have aggressively pursued deposits to fund the strong loan demands of their customers. Thus M3 has hovered at and above the top of its target all year long.

M3 growth has been driven by strong short-term credit growth. M2's weak growth indicates a better behaved money demand by individuals. M1 is still an uncertain entity; its velocity is looking more stable and trend-dominated. This could mean a renewed emphasis on M1; such a development would mean that M1 would probably have to grow at its midpoint rate of 6% or less to satisfy the Fed. Conversely, M3's target is extremely tight, as that aggregate has a trendless velocity. M3 has been driven above its target by strong real GNP growth, not by stronger-than-expected inflation. All this talk about velocity is a weak disguise for an emphasis on GNP growth. That's been the Fed's real problem so far. Signals of moderation in this growth are in the air. But they are hovering and haven't landed yet. When the slowing is more certain, the Fed can place renewed emphasis on money growth. Until then, the Fed will ignore slow-growing money and probably bite its lip if money growth accelerates.

Robert A. Brusca

Irving Trust

Market Yields

	6/8/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.69	10.38	8.63
Repurchase Agreements	10.38	9.63	8.63
U.S. Treasury Issues			
Bills			
3 months	10.23	10.16	8.84
6 months	11.26	11.29	9.20
1 year	12.05	12.04	9.39
Coupons			
2 years	12.77	12.92	10.02
4 years	13.20	13.44	10.38
7 years	13.51	13.73	10.74
10 years	13.53	13.80	10.78
Long Bond	13.47	13.73	10.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.75	10.70	8.80
3 months	11.13	11.30	8.95
6 months	11.75	11.95	9.20
1 year	12.50	12.90	9.55
Banker's Acceptances			
1 month	10.95	10.69	8.87
3 months	11.31	11.13	9.00
6 months	12.14	11.98	9.16
Eurodollar Deposits			
1 month	11.13	11.13	9.13
2 months	11.38	11.38	9.25
3 months	11.63	11.69	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.75	10.32	8.76
1 month	10.95	10.59	8.94
3 months	10.88	10.78	9.07
Bank Holding Companies			
1 month	10.33	10.08	8.81
Dealer Placed:			
3 months	11.15	11.31	9.04
New AA Corporate Utility Bond	14.55	14.90	11.70
Tax Exempt			
6 month Project Notes	5.85	5.80	4.95
1 year AAA Bond	6.25	6.75	5.50
5 year AAA Bond	8.15	8.25	7.00
20 year AAA Bond	10.25	10.25	9.50

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629